

MEDIA RELEASE

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DPS and Utilities Reach Agreement for Vermont Electric Coop Acquisition of Citizens Territory

CITIZENS TERRITORY RATES TO FREEZE, RATES TO DROP FOR VEC CUSTOMERS

Montpelier, VT— The Vermont Department of Public Service has agreed to support the acquisition of Citizens Energy Services' territory by Vermont Electric Cooperative based on conditions which will reduce rates of existing VEC customers to Citizens' level, freeze Citizens' customers' rates for five years, increase spending on system reliability, refund tax over-payments to Citizens customers, and assess a \$250,000 penalty against Citizens in settlement of probation violations from an earlier case. The Public Service Board must approve the agreement for it to become effective.

“This agreement greatly increases the value of VEC's original proposal to the Board,” said DPS Commissioner David O’Brien. “Citizens has been working for a number of years to divest its Vermont franchise. Because of extended litigation and expenditure of ratepayer funded resources, the Department has sought to support a sound transfer to a Vermont utility.” O'Brien said the Department’s goals from the outset of the case were to ensure that:

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- the purchase price, and therefore the amount of investment to be recovered in rates, was at the lowest possible level;
- any amounts owed by Citizens to Vermont ratepayers were refunded;
- the apparent synergies between the two territories provide savings to ratepayers; and
- most important, with VEC expanding its franchise to more than 36,000 customers, that system reliability and customer service be at the highest level.

“In these settlements we achieved our goals on behalf of the ratepayers, with five years of rate stability for former Citizens customers (whose rates are now lower than VEC's), a decrease for VEC's current customers to Citizens' level, a \$2.9 million credit against the purchase price and a full refund of deferred taxes to Citizens' customers. Similar to our recent settlement with Adelphia, we have brought an end to longstanding disputes in a manner that protects the state's interest and will provide significant value to ratepayers in the future,” O'Brien said. He also pointed out the benefits of the VEC acquisition given that the two utilities' territories are a contiguous and logical fit. “These are two rural service territories. By combining the two there are clear opportunities for cost savings and therefore benefits to ratepayers,” he said. “Much credit for this outcome belongs to the DPS staff who worked diligently to protect the ratepayer interest and to the management team at VEC for working with us.”

VEC and Citizens filed a purchase and sales agreement with the Board in April for approval of the transfer of Citizens' service territory to VEC. VEC currently serves approximately 16,000 customers, while about 20,500 are served by Citizens. The acquisition, if approved by the Board, will more than double the size of VEC.

The specific benefits of the agreements reached between DPS and the two utilities include:

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- A \$250,000 payment by Citizens to the State of Vermont general fund to resolve probation violation issues connected with Docket 5841/5859.
- An agreement not to raise rates in the current Citizens territory for five years from the date of closing, with strong financial penalties for failing to control costs resulting in the need for an increase sooner.
- An average rate reduction of 8.5 percent for customers in the current VEC territory within 18 months of closing to the same level as current Citizens rates, with rates remaining frozen in the same manner as the former Citizens territory.
- Refunds of \$720,000 in deferred state and federal income taxes to current Citizens customers through bill credits.
- Payment of \$2.9 million by Citizens to VEC to be used to benefit ratepayers through increased tree trimming to improve reliability, offset of above market costs of HydroQuébec power previously contracted by Citizens, and to maintain revenue requirements connected to VEC's borrowing.

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Ed. Note: The text of the Memoranda of Understanding that are the subject of this release are posted on the DPS website at <http://www.state.vt.us/psd/6850,6853/6850.htm>.